SANTANDER CONSUMER (UK) PLC

Registered in England and Wales
No: 02248870

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED
31 DECEMBER 2019

STRATEGIC REPORT

The Directors submit this Strategic report together with their Directors' report and the audited financial statements for the year ended 31 December 2019.

Fair review of the Company's Business

The principal activity of Santander Consumer (UK) plc, (the Company) is the provision of retail finance, both secured and unsecured, including instalment credit facilities, contract hire and finance leasing products to retail customers for the purchase of motor vehicles and equipment. For accounting purposes, 'finance leasing' includes Conditional Sale agreements and Personal Contract Purchase (PCP) agreements. Further details are in Finance Lease Receivables note 20. Wholesale funding facilities are also provided to dealers.

Key performance indicators are summarised below:

Key Performance Indicators		FY 2019	FY 2018	Difference
Total Manufacturers (excluding the Joint Venture entities)	Units	9	8	1
Retail				
New Vehicles				
Total Advances	£m	£879.0	£734.2	£144.8
	Units	45,571	37,422	8,149
Average Advance	£	£19,289	£19,620	-£331
Used Vehicles				
Total Advances	£m	£1,411.6	£1,506.1	-£94.5
	Units	113,412	128,756	-15,344
Average Advance	£	£12,447	£11,697	£750
Contract hire				
Additions	£m	£225.4	£336.0	-£110.7
	Units	9,742	14,494	-4,752
Profit Before Tax	£m	£107.5	£130.6	£23.1

The Company's Key Performance Indicators above relating to new business advances are shown split between new and used vehicles. The finance advances linked to new vehicles are primarily driven by the manufacturer arrangements that we have in place. In total the Company, has nine white label agreements in place (2018: 8), with a new relationship with MG Cars commencing on 1st January 2019. The Company has a mix of white label and joint venture agreements with car and motorbike manufacturers including Mazda, Volvo, MG Cars, KTM, Husqvarna, McLaren, Caterham Cars, Yamaha, BRP, Peugeot, Citroen, Hyundai and Kia cars.

For new vehicle finance, the average advance is relatively stable at £19,289 with a small reduction on the prior year average advance of £19,620. In 2019, we have seen a shift in the type of finance products entered into for new cars, with higher volumes for retail (comprising of finance leases and unsecured personal loans) in comparison to contract hire which is a relatively new product for the Company, first introduced in 2015. Retail finance for new vehicles shows growth of £144.8m compared to contact hire additions which recognised an annual reduction in additions of £110.7m. At a combined level, new car finance is higher in 2019 than 2018, despite some difficult trading conditions with uncertainty linked to Brexit and concerns raised around diesel cars.

The Company continues to develop its core used car business, whilst continuing to seek further dealer and manufacturer partnerships. Used car finance shows a reduction in total volumes of £94.5m, this was strategic as we continue to ensure that the finance agreements entered are profitable and from high class dealerships combined with customers of a strong credit quality.

The Company has two active Joint Ventures: Hyundai Capital UK Limited and PSA Finance UK Limited. The joint venture entity, Hyundai Capital UK Limited commenced trading in July 2012; this entity is consolidated on an equity basis in the Santander UK group accounts as the Company does not have control. The joint venture agreement with Banque PSA started in February 2015, the Company has control over PSA Finance UK Limited, for accounting purposes this entity is consolidated at a group level and a minority adjustment is made to adjust for the profits attributable to the joint venture partner. Together with its Joint Ventures, the Company was a leading Independent Finance Provider for new and used Motor Vehicles in thé United Kingdom in 2019.

Profit before tax has fallen by £23.1m year on year. £10m of this reduction relates to a lower dividend receipt from PSA finance UK Limited. In 2018 the Company changed the way it provided for future contract hire losses, this resulted in a one-off release in contract hire provisions of £5.7m. In addition, impairment relating to PSA Finance UK Limited of £633k, was released in 2018. The Statement of Comprehensive Income on page 7 provides the detail to support the profit before tax of £107.5m (2018: £130.6m).

STRATEGIC REPORT *(continued)*

The Santander UK plc group (the Group) manages its operations on a divisional basis. For this reason, the Company's Directors believe that further key performance indicators for the Company are not necessary or appropriate for an understanding of the development, performance or position of the business. The performance of the divisions of Santander UK plc, which include the Company, are discussed in the Group's Annual Report which does not form part of this Report.

The Company has been working on a long-term project to replace the existing administration legacy systems with a newly designed bespoke system. This is known internally as Project Solar and this new system has been launched in January 2018. Other IT projects include new and improved digital technologies for the benefit of customers, dealers and manufacturers.

The Company also continues to invest in smaller internal projects to improve products, services and systems. The Company is funded in part from its parent Santander UK Plc, and from securitisations. It will continue to seek to diversify its funding sources, by entering into securitisation transactions, where this is appropriate.

The Company is involved in Global Risk Strategy Projects, including the Internal Ratings Based (IRB) Approach, group projects such as Banking Reform and accounting and risk projects. These projects have differing timelines, some are deliverable in 2020 and others such as the IRB Approach are longer term and we will continue to work on them over the next few years.

Section 172 Statement

The Company is wholly owned by Santander UK plc (the Santander UK group's ring-fenced bank) and as such will always operate to the standards set by the Santander UK group. Any decision taken will be aligned to the strategy of the wider Santander UK group (particularly the ring-fenced bank) and made in the best interest of all stakeholders. Impacts of any decision will be determined through ongoing risk assessment conducted with all relevant stakeholders.

Principal risks and uncertainties facing the Company

The Company's principal risks and uncertainties together with the processes that are in place to monitor and mitigate those risks where possible can be found in note 3.

On behalf of the Board

Diane Roberts
Director

26 June 2020

Registered Office Address: Santander House, 86 Station Road, Redhill, Surrey, RH1 1SR

REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended 31 December 2019.

Principal activity

The principal activity of Santander Consumer (UK) plc, (the Company) is the provision of retail finance, both secured and unsecured, including instalment credit facilities and finance leasing products to retail customers for the purchase of motor vehicles and equipment. Wholesale funding facilities are also provided to dealers, this ensures the dealers have sufficient inventories of vehicles to sell and hopefully for the Company to then offer customers finance facilities. For accounting purposes, 'finance leasing' includes Conditional Sale agreements and Personal Contract Purchase (PCP) agreements. Further details are in Finance Lease Receivables note 20 and Loans and Receivables note 21.

Likely future developments

The Directors do not expect any significant change in the level of retail and wholesale business in the foreseeable future.

Results and dividends

The profit for the year amounted to £88.264m (2018: profit £111.210m).

The Company paid no interim dividends during the year (2018: £120.000m). The Directors do not recommend the payment of a final dividend (2018: £nil).

Post balance sheet events

There are no post balance sheet events.

Directors

The Directors who served throughout the year and to the date of this report (except as noted) were as follows:

J Anton San Pablo
AR Goldhagen
VT Hill (Managing Director)
B Montalvo Wilmot
DE Roberts
ME Staveley
R Attar-Zadeh

Statement of Directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation. Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006.

Statement of Going Concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report. The financial position of the Company, its cash flows, liquidity position and borrowing facilities are set out in the financial statements. In addition, notes 3, 20, 21, 24 and 26 to the financial statements include the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to operational risk, credit risk, market risk, liquidity risk, conduct risk and residual value risk.

REPORT OF THE DIRECTORS *(continued)*

Statement of Going Concern *(continued)*

The Company has adequate financial resources. As a consequence, the Directors believe that the Company is well placed to manage its business risks successfully despite the current uncertain economic outlook.

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for at least the period of 12 months from the date the financial statements are authorised for issue. Accordingly, they continue to adopt the going concern basis of accounting in preparing the annual report and financial statements.

Research and Development

The Company has developed a replacement mainframe IT system for its retail conditional sale and personal loan agreements. The asset was brought into use in January 2018. Further disclosure can be found in note 15.

The Company has started a long-term project to develop IRB compliant risk models.

Financial Instruments

The Company's risks are managed at a group level by the UK parent company, Santander UK plc.

The financial risk management objectives of and policies of the group; the policy for hedging each major type of forecasted transaction for which hedge accounting is used; and the exposure of the group to price risk, credit risk, liquidity risk and cash-flow risk are outlined in the group financial statements.

It is, and has been throughout the year under review, the Company's policy that no trading in financial instruments shall be undertaken.

All other assets, liabilities and transactions are denominated in Sterling.

Further disclosures regarding financial risk management objectives and policies and the Company's exposure to principal risks can be found in note 3.

Qualifying Third Party Indemnities

Enhanced indemnities are provided to the Directors of the Company by Santander UK plc against liabilities and associated costs which they could incur in the course of their duties to the Company. All of the indemnities were in force during the financial year and at the date of approval of the Report and Financial Statements. All of the indemnities were qualifying third party indemnities. A copy of each of the indemnities is kept at the registered office address of Santander UK plc.

Pillar 3

The Santander UK plc group's Pillar 3 disclosures are available in the Santander UK plc group's Pillar 3 disclosures report.

Employees

Details of the number of employees and related costs can be found in note 9 to the Financial Statements.

The Company participates in the group's policies and practices to keep employees informed on matters relevant to them as employees through regular meetings, newsletters and the Intranet. Employee representatives are consulted regularly on a wide range of matters affecting their interests. Employees are encouraged to be involved in the Company's performance through group sharesave schemes and are also encouraged to achieve a common awareness of the financial and economic factors affecting the performance of the Company and group.

The group is committed to equality of access and quality of service for disabled people and embraces the spirit of the UK Equality Act 2010 throughout its business operations. The group has processes in place to help recruit, train, develop, retain and promote employees with disabilities and is committed to giving full and fair consideration to applications for employment made by disabled persons, and for continuing the employment of, and arranging appropriate training for, existing employees who have become disabled.

Corporate Governance Statement

The Company is part of the Santander UK plc Group. For the financial year ended 31 December 2019, the Group reported against the UK Corporate Governance Code 2018 (the Code). Additionally, the Group has developed its own Internal Corporate Governance Framework (CGF) suitable for its subsidiaries, to which the Company adheres. The Company has therefore adopted the Group's CGF, which indirectly follows the spirit of the Code. The corporate governance arrangements of the Group, which includes the Company, are discussed in the Santander UK plc 2019 Annual Report, which does not form part of this Report.

With regard to risk management, the Group sets the overarching strategic agenda and risk appetite for itself and Group subsidiaries, to ensure alignment with its applicable risk appetite as well as its culture and values. These are reviewed regularly by its Board Risk Committee as well as its executive management. The CGF provides for the Company to review its own strategy and risk appetite, ensuring alignment to the Group's strategic agenda, risk management and automatic escalation of material risk matters as and when required. During these discussions, the Board considers its respective stakeholder group (which includes customers and its shareholder).

The Company has employees and supporting staff (see note 9 to these financial statements). Remuneration practices are aligned to Group policies and procedures. Board Chair appointments (including remuneration where applicable) are subject to the Group's Board Nomination Committee consideration. The Company, its Board of Directors and its parent are committed to fair employee reward and incentivisation.

REPORT OF THE DIRECTORS *(continued)*

Post balance sheet events

COVID-19

The Company is monitoring the impact of the COVID-19 outbreak on the financial performance of the Company. The Company is part of the Santander UK Group, which has implemented precautionary measures and protocols based on recommendations from official health authorities, such as the World Health Organization (WHO) and Public Health England. Further such measures may need to be implemented in future, as the situation is complex and is still changing rapidly.

Given the fluidity of the situation, the Company cannot quantify the magnitude and duration of the impact of the COVID-19 outbreak at this time, although there may well be a negative impact on our 2020 financial results. However, the Company does not anticipate any significant change to the carrying value of its assets and liabilities at the reporting date. The Company will continue to monitor and assess its business operations.

Brexit and IBOR transition

The process of the UK leaving the EU impacts the economic, legal and regulatory environment for our customers across the financial services industry. In addition, the use of LIBOR, which is expected to cease in 2021, and its transition to (near) Risk Free Reference Rates (RFR) is also a significant issue across the industry. The Santander UK group has put in place appropriate plans to address the potential risks and will update and implement in this Company as necessary.

Independent Auditors

Each of the Directors as at the date of approval of this report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- the Director has taken all steps that he/she ought to have taken as a Director to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

PricewaterhouseCoopers LLP have expressed their willingness to continue in office as auditor and a resolution to reappoint them will be proposed at the Company's forthcoming annual general meeting.

On behalf of the Board

Diane Roberts
Director

26 June 2020

Registered Office Address: Santander House, 86 Station Road, Redhill, Surrey, RH1 1SR

Independent auditors' report to the members of Santander Consumer (UK) plc

Report on the audit of the financial statements

Opinion

In our opinion, Santander Consumer (UK) plc's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the balance sheet as at 31 December 2019; the statement of comprehensive income, the cash flow statement, the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Report of the Directors , we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Independent auditors' report to the members of Santander Consumer (UK) plc (continued)

Strategic Report and Report of the Directors

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Report of the Directors for the year ended 31 December 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Report of the Directors.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' responsibilities set out on page 3, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

HMAnderson

Hamish Anderson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
26 June 2020

STATEMENT OF COMPREHENSIVE INCOME

For the years ended 31 December

	Note	2019 £000	2018 £000
Net interest and similar income	5	338,238	348,821
Finance costs	6	(178,186)	(193,611)
Gross profit		160,052	155,210
Other operating income	7	107,321	73,931
Administrative expenses	9	(146,513)	(104,587)
Impairment losses	8	(26,235)	(15,887)
Impairment of investment	8	-	633
Operating profit		94,625	109,300
Investment gains/ (losses)	12	891	(726)
Investment income	10	12,000	22,000
Profit before tax		107,516	130,574
Tax	13	(19,262)	(19,364)
Profit for the year		88,254	111,210
Other comprehensive income that may be classified to profit or loss subsequently:			
Cash flow hedge adjustment		10	-
Other comprehensive income for the year net of tax		10	-
TOTAL COMPREHENSIVE INCOME		88,264	111,210

All the activities of the Company are classed as continuing.

The accompanying notes form an integral part of the financial statements

BALANCE SHEET

As at 31 December

	Note	2019 £000	2018 £000
Non-current assets			
Intangible assets	15	6,978	6,567
Property, plant and equipment	16	12,323	-
Operating lease assets	17	506,257	430,591
Investment in subsidiary	18	109,605	109,605
Investment in joint venture	19	27,506	27,506
Finance lease receivables	20	2,356,053	2,148,057
Financial assets held at amortised cost	21	2,831,760	1,824,775
Trade and other receivables	22	9,454	61
Deferred tax asset	23	3,009	-
		5,862,945	4,547,162
Current assets			
Finance lease receivables	20	1,010,324	900,293
Financial assets held at amortised cost	21	3,478,578	4,540,775
Trade and other receivables	22	21,282	44,961
Derivative financial instruments	24	5	21,097
Inventories	25	13,873	832
Cash and cash equivalents	14	64,945	45,178
		4,589,007	5,553,136
Total assets		10,451,952	10,100,298
Current liabilities			
Trade and other payables	26	(128,964)	(122,261)
Lease liabilities	27	(1,079)	-
Derivative financial instruments	24	(160)	(1,710)
Bank overdrafts and borrowings	28	(5,092,784)	(5,870,105)
		(5,222,987)	(5,994,076)
Net current (liabilities)/ assets		(633,980)	(440,940)
Non-current liabilities			
Bank overdrafts and borrowings	28	(4,602,273)	(3,571,560)
Lease liabilities	27	(11,159)	-
Derivative financial instruments	24	(22)	(694)
Deferred tax liability	23	-	(6,721)
		(4,613,454)	(3,578,975)
Total liabilities		(9,836,441)	(9,573,051)
Net assets		615,511	527,247
Equity			
Capital and reserves			
Share capital	29	150,000	150,000
Retained earnings		465,511	377,247
Total equity		615,511	527,247

The accompanying notes form an integral part of the financial statements.

The financial statements were approved by the Board of Directors, authorised for issue and signed on its behalf by:

Diane Roberts
Director
26 June 2020

CASH FLOW STATEMENT

For the years ended 31 December

	Note	2019 £000	2018 £000
Net cash generated from/ (used in) operating activities	31	7,022	(820,142)
Investing activities			
Dividends received from PSA Finance UK Limited	10	12,000	22,000
Purchase of intangible assets	15	(1,505)	-
Purchase of property, plant and equipment		(245)	-
Purchase of operating lease assets	17	(225,353)	(336,035)
Proceeds on disposal of operating lease assets	17	61,278	5,160
Net cash used in investing activities		**(153,825)**	(308,875)
Financing activities			
Interest paid		(178,186)	(193,611)
Repayments of obligations on securitised notes		(564,950)	(263,286)
Cash flows from derivative financial instruments		19,772	4,399
Dividends paid		-	(120,000)
Increase in term deposits		71,591	(1,122,806)
Increase in bank overdrafts and loans		818,343	2,827,448
Net cash generated from financing activities		**166,570**	1,132,144
Net increase in cash and cash equivalents		19,767	3,127
Cash and cash equivalents at beginning of year		45,178	42,051
Cash and cash equivalents at end of year	14	**64,945**	45,178

The accompanying notes form an integral part of the financial statements.

STATEMENT OF CHANGES IN EQUITY

For the years ended 31 December

	Share Capital £000	Retained earnings £000	Total Equity £000
Balance at 1 January 2018	150,000	386,037	536,037
Profit and total comprehensive income for the year	-	111,210	111,210
Dividends paid	-	(120,000)	(120,000)
Balance at 31 December 2018	150,000	377,247	527,247
Balance at 1 January 2019	150,000	377,247	527,247
Profit and total comprehensive income for the year	-	88,264	88,264
Balance at 31 December 2019	150,000	465,511	615,511

The accompanying notes form an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

The principal accounting policies adopted in the presentation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

General information

The Company is a limited liability company, domiciled and incorporated in the United Kingdom and is part of Santander UK Group Holdings plc whose ultimate parent is Banco Santander SA. The registered office address of the Company is 2 Triton Square, Regent's Place, London NW1 3AN.

Basis of preparation

The financial statements of Santander Consumer (UK) plc have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRS IC) interpretations as adopted by the European Union and the Companies Act 2006 applicable to companies reporting under IFRS.

These financial statements present information about this Company as an individual undertaking. The Company is exempt from preparing consolidated financial statements as the ultimate parent undertaking, Banco Santander SA, produces IFRS consolidated financial statements, of which the Company is a member, which are available for public use. The method to obtain copies of the consolidated financial statements is set out in note 33 of these financial statements.

The financial statements have been prepared under the historical cost convention (except for the derivative financial instruments which are measured at fair value through profit and loss) and on a going concern basis as disclosed in the Directors' statement of going concern set out in the Report of the Directors.

The functional and presentation currency of the Company is pounds sterling.

Recent accounting developments

On 1 January 2016, the IASB issued IFRS 16 "Leases". The standard is effective for annual periods beginning on or after 1 January 2019. The accounting policy resulted in the Company recognizing right of use assets and lease liabilities for the Head Office building and for motor vehicles with an asset value of £12.5m as at 1/1/2019 and a corresponding liability of £12.5m. Further information can be found in note 16 and note 27.

Future accounting developments

At 31 December 2019, for the Company, there were no significant new or revised standards and interpretations, and amendments thereto, which have been issued but which are not yet effective.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and recognised when prescribed conditions are met, which depend on the nature of the revenue.

Interest income is recognised using the effective interest rate method. The effective interest rate method is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's initial net carrying amount. The calculation includes all fees paid or received that are integral to the contract and all other premiums and discounts. See lease policy for recognition of income regarding leases. Interest is receivable on term deposits at fixed rates.

Net interest and similar income

Net Interest and similar income is received from five key income streams:

- Retail income which includes interest income from finance leases, unsecured personal loans and associated fees and commissions. Third party intermediaries including dealerships and brokers introduce all new business. Commission is paid to these intermediaries for their services; the commission is spread using the effective interest rate method over the expected life of the agreements. Fees and commissions that are not an integral part of the effective interest rate are recognised when the service is provided, or on the performance of a significant act. For retail and corporate products, fee and commission income consists principally of collection services fee, and fees for non-banking financial products. Revenue from these income streams is recognised when the service is provided.
- Wholesale funding income which includes both interest and fee income from lending to dealers.
- Interest and fee income from investments in a subsidiary and joint venture.
- Interest and fee income from securitisations.
- Other bank interest from amounts held on deposit.

Other operating income

Other operating income includes:

- income generated from operating leases. Income is recognised on a straight-line basis over the life of the agreement.
- intercompany recharges for servicing the Hyundai Capital UK Limited portfolio
- For retail and corporate products, fee and commission income consists principally of collection services fee, and fees for non-banking financial products.

Revenue from operating leases is recognised on a straight-line basis, over the life of the agreement. All other operating income s is recognised when the service is provided.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

1. ACCOUNTING POLICIES *(continued)*

Finance costs

Finance costs consist of interest payable to group undertakings, amounts paid on securitisation, fair value losses on interest rate swaps and bank charges on overdrafts and loans. The criteria used to recognise finance costs vary depending upon their nature. The main criteria are as follows:

- Fair value losses on interest rate swaps are recognised at fair value through profit and loss.
- Interest payable to group undertakings and bank charges are recognised on an accruals basis.

Pensions and other post-retirement benefits

The Company participates in a group defined benefit scheme run by Santander UK. However, it is not possible to identify the Company's share of the assets and liabilities of the scheme; therefore it is accounted for as a defined contribution scheme. The pension charge in the profit and loss reflects the contributions payable during the year.

Intangible assets

Intangible assets are recognised if they arise from contracted or other legal rights or if they are capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged. The value of such intangible assets is amortised over the useful economic life of the assets which is seven years. Any intangible assets with indefinite useful economic lives are subjected to an impairment review at least annually and whenever there is an indication that the intangible asset may be impaired.

Software development costs are capitalised when they are direct costs associated with identifiable and unique software products that are expected to provide future economic benefits and the cost of these products can be measured reliably. These costs include payroll, the costs of materials and services, and directly attributable overheads. Internally developed software meeting these criteria and externally purchased software are classified in fixtures and equipment on the balance sheet where the software is an integral part of the related computer hardware. Capitalisation of costs ceases when the software is capable of operating as intended. Costs associated with maintaining software programmes are expensed as incurred.

Property, plant and equipment

Property, plant and equipment include buildings and office fixtures and equipment. Property, plant and equipment are carried at cost less accumulated depreciation and accumulated impairment losses. A review for indications of impairment is carried out at each reporting date. Gains and losses on disposal are determined by reference to the carrying amount and are reported in administration expenses. Repairs and renewals are charged to the income statement when the expenditure is incurred. Classes of property, plant and equipment are depreciated on a straight-line basis over their useful life as follows:

Buildings	15 years
Office fixtures and equipment	2 to 15 years

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. The gain or loss arising on the disposal or scrappage of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income.

Investment in Subsidiary

A subsidiary is an entity over which the Company has control. Control is achieved where the Company has (i) power over the investee; (ii) is exposed, or has rights, to variable returns from its involvement with the investee; and (iii) has the ability to use its power to affect its returns. The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Since the Company is exempt from preparing consolidated financial statements as the ultimate parent undertaking, Banco Santander SA, produces IFRS consolidated financial statements, of which the Company is a member, investments in subsidiaries are recorded in the Company balance sheet at cost, less any accumulated impairment loss allowances. An impairment review of investment in the subsidiary is carried out annually.

Investment in Joint Venture

Joint ventures are joint arrangements whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. Accounting policies have been aligned to the extent there are no differences from the Santander UK group's policies.

The Santander UK group's investments in joint ventures are accounted for by the equity method of accounting and are initially recorded at cost and adjusted each year to reflect the Santander UK group's share of the post-acquisition results of the joint venture. Since the Company is exempt from preparing consolidated financial statements as the ultimate parent undertaking, Banco Santander SA, produces IFRS consolidated financial statements, of which the Company is a member, investments in joint ventures are recorded in the Company balance sheet at cost, less any accumulated impairment loss allowances. An impairment review of investment in the joint venture is carried out annually.

1. ACCOUNTING POLICIES *(continued)*

Financial Instruments

a) Initial recognition and measurement

Financial assets and liabilities are initially recognised when the Company becomes a party to the contractual terms of the instrument. The Company determines the classification of its financial assets and liabilities at initial recognition and measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at FVTPL, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss. Immediately after initial recognition, an expected credit loss (ECL) allowance is recognised for financial assets measured at amortised cost and investments in debt instruments measured at FVOCI.

b) Financial assets and liabilities

Classification and subsequent measurement
From 1 January 2018, the Company has applied IFRS 9 Financial Instruments and classifies its financial assets in the measurement categories of amortised cost, FVOCI and FVTPL.

Financial assets and financial liabilities are classified as FVTPL where there is a requirement to do so or where they are otherwise designated at FVTPL on initial recognition. Financial assets and financial liabilities which are required to be held at FVTPL include:

- Financial assets and financial liabilities held for trading

- Debt instruments that do not have solely payments of principal and interest (SPPI) characteristics. Otherwise, such instruments are measured at amortised cost or FVOCI.

Financial assets and financial liabilities are classified as held for trading if they are derivatives or if they are acquired or incurred principally for the purpose of selling or repurchasing in the near-term, or form part of a portfolio of financial instruments that are managed together and for which there is evidence of short-term profit taking.

In certain circumstances other financial assets and financial liabilities are designated at FVTPL where this results in more relevant information. This may arise because it significantly reduces a measurement inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains or losses on them on a different basis, where the assets and liabilities are managed and their performance evaluated on a fair value basis or, in the case of financial liabilities, where it contains one or more embedded derivatives which are not closely related to the host contract.

c) Financial assets: debt instruments
Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans and government and corporate bonds. Classification and subsequent measurement of debt instruments depend on the Company's business model for managing the asset, and the cash flow characteristics of the asset.

Business model
The business model reflects how the Company manages the assets in order to generate cash flows and, specifically, whether the Company's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of the assets. If neither of these is applicable, such as where the financial assets are held for trading purposes, then the financial assets are classified as part of an 'other' business model and measured at FVTPL. Factors considered in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the assets' performance is evaluated and reported to key management personnel and how risks are assessed and managed.

SPPI
Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Company assesses whether the assets' cash flows represent SPPI. In making this assessment, the Company considers whether the contractual cash flows are consistent with a basic lending arrangement (i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement). Where the contractual terms introduce exposure to risk or volatility that is inconsistent with a basic lending arrangement, the related asset is classified and measured at FVTPL.
Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are SPPI.
Based on these factors, the Company classifies its debt instruments into one of the following measurement categories:

- Amortised cost – Financial assets that are held for collection of contractual cash flows where those cash flows represent SPPI, and that are not designated at FVTPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any ECL recognised. Interest income from these financial assets is included in 'Net interest and similar income' using the effective interest rate method. When the estimates of future cash flows are revised, the carrying amount of the respective financial assets or financial liabilities is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognised in the income statement.

- FVOCI – Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent SPPI, and that are not designated at FVTPL, are measured at FVOCI. Movements in the carrying amount are recognised in OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortised cost which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in 'Net interest and similar income'. Interest income from these financial assets is included in 'Other gains/ losses' using the effective interest rate method.

1. ACCOUNTING POLICIES *(continued)*

-FVTPL – Financial assets that do not meet the criteria for amortised cost or FVOCI are measured at FVTPL. A gain or loss on a debt instrument that is subsequently measured at FVTPL, including any debt instruments designated at fair value, is recognised in profit or loss and presented in the income statement in 'Other operating income' in the period in which it arises.

The Company reclassifies financial assets when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent.

Impairment of debt instrument financial assets

Expected credit losses are recognized on all financial assets at amortised cost or at fair value through other comprehensive income. The expected credit loss considers forward looking information to recognise impairment allowances earlier in the lifecycle of a product. A three-stage approach to impairment measurement is adopted as follows:

- Stage 1 - the recognition of 12 month expected credit losses (ECL), that is the portion of lifetime expected credit losses from default events that are expected within 12 months of the reporting date, if credit risk has not increased significantly since initial recognition;
- Stage 2 - lifetime expected credit losses for financial instruments for which credit risk has increased significantly since initial recognition; and
- Stage 3 - lifetime expected credit losses for financial instruments which are credit impaired.

The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Impairment of debt instrument financial assets *(continued)*

Financial assets are written off when it is reasonably certain that receivables are irrecoverable. All write-offs are assessed on a case-by-case basis, taking account of the exposure at the date of write-off. Write-offs are charged against previously established loss allowances.

Recoveries of credit impairment losses are not included in the impairment loss allowance, but are taken to income and offset against credit impairment losses. Recoveries of credit impairment losses are classified in the income statement as 'Impairment losses'.

For more on how ECL is calculated see the Credit risk section in Note 3.

Hedge accounting

IFRS 9 revises the requirements on hedge accounting, adoption of which is optional. The Company will continue to apply the relevant IAS 39 hedge accounting requirements.

a) Fair value hedge accounting
Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the Statement of Comprehensive Income, together with the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. If the hedge no longer meets the criteria for hedge accounting, changes in the fair value of the hedged item attributable to the hedged risk are no longer recognised in the Statement of Comprehensive Income.

Financial liabilities

Financial liabilities are classified as subsequently measured at amortised cost, except for:

- Financial liabilities at fair value through profit or loss: this classification is applied to derivatives. Gains or losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability) and partially in profit or loss (the remaining amount of change in the fair value of the liability)

Trade and other payables are classified as amortised cost.

Impairment of intangible assets

At each balance sheet date, the Company reviews the carrying amounts of its intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimates to determine the extent of the impairment loss (if any).

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised immediately in the profit and loss.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

1. ACCOUNTING POLICIES *(continued)*

Finance leases

The Company as a Lessor
The Company's finance products include Conditional Sale agreements and Personal Contract Purchase (PCP) agreements. Under Conditional Sale agreements, the Company is the legal owner of the vehicle until all repayments have been made. Under Personal Contract Purchase (PCP) agreements there is a final balloon payment at the end of the agreement, and the customer has three contractual options at the end of the agreement term. Further details are found in note 20.

Definition of a lease
The definition of a lease also includes hire purchase contracts. These are contracts for the hire of an asset that give the hirer an option to acquire title to the asset and conditional sale agreements where title automatically passes to the lessee on making the final lease payment.

Assets leased to customers under agreements which transfer substantially all the risks and rewards of ownership to the lessee, are classified as finance leases. Assets held under finance leases are recognised in the balance sheet as a receivable amount equal to the net investment in leases. The net investment in leases represents the present value of the minimum lease payments receivable under finance leases or the life of the asset if shorter, at the inception of the lease, together with any unguaranteed residual value accruing to the lessor discounted at the rates of interest implicit in the leases. Income from finance leases is allocated to accounting periods so as to give a constant periodic rate of return on the net investment. Impairment losses arising from changes in future residual values for finance leases are recognised as part of the impairment of financial assets.

The Company as lessee
If the lease agreement transfers the risk and rewards of the asset, the lease is recorded as a finance lease and the related asset is capitalised. At inception, the asset is recorded at the lower of the present value of the minimum lease payments or fair value and depreciated over its estimated useful life. The corresponding rental obligations are recorded as borrowings.

The aggregate benefit of incentives, if any, is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Operating leases

The Company as a lessor: Assets leased to customers, under agreements which do not transfer substantially all the risks and rewards of ownership, are classified as operating leases. Operating leases are capitalised and depreciated on a straight-line basis over their anticipated useful lives to estimated residual values. Estimated residual values are regularly reassessed against revised projections of used car prices and the resulting changes of estimate are reflected in adjustments to the deprecation charge for the year and remaining lease term.

The Company as a lessee: The Company enters into operating leases for the rental of the office premises and motor vehicles. Payments made under such leases are charged to the income statement principally on a straight-line basis over the period of the lease, based on cost less residual value. Residual values are reassessed monthly and adjustments to depreciation are made accordingly. When an operating lease is terminated before the lease period has expired, any payment to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

Financial guarantee contracts

The Company issued a credit default swap (CDS) to its joint venture, PSA Finance UK Limited on 28th December 2016. The Company entered into a junior credit protection deed with its securitisation vehicle Motor 2018-1 Securities DAC on 12th December 2019. Both these instruments meet the definition of a financial guarantee contract. Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument. Santander Consumer (UK) plc accounts for guarantees that meet the definition of a financial guarantee contract at fair value on initial recognition. In subsequent periods, these guarantees are measured at the higher of the initial fair value less cumulative amortisation and the amount that would be recognised as a provision in accordance with IAS 37.

With regards to expected future premiums from issued financial guarantee contracts, a separate financial asset is recognised as being the time-discounted value of expected future premiums still to be received in respect of guarantees issued.

1. ACCOUNTING POLICIES *(continued)*

Taxation

The tax expense represents the sum of the income tax currently payable and deferred income tax.

Income tax payable on profits, based on the applicable tax law in each jurisdiction is recognised as an expense in the period in which profits arise. Taxable profit differs from net profit as reported in the Statement of Comprehensive Income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred income tax is the tax expected to be payable or recoverable on income tax losses available to carry forward and on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the assets may be utilised as they reverse. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill. Deferred tax assets and liabilities are not recognised from the initial recognition of other assets (other than in a business combination) and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on rates enacted or substantively enacted at the balance sheet date. Deferred tax is charged or credited in the income statement, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity.

Deferred and current tax assets and liabilities are only offset where there is both the legal right and the intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Inventories

Inventories encompass non-financial goods held for sale in the ordinary course of business. Inventories are valued at the lower of cost and net realisable value.

Cash and cash equivalents

For the purposes of the cash flow statement and balance sheet, cash and cash equivalents comprise balances with less than three months maturity from the date of acquisition, including loans and advances to banks in the same group, and amounts due from other banks.

Financial Liabilities, including borrowings and trade and other payables

Financial liabilities are recognised initially at fair value, being the proceeds (fair value of consideration received) net of transaction costs incurred. Financial liabilities are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest rate method.

Securitisation transactions

The Company has entered into certain arrangements where undertakings have issued asset-backed securities. As the Company has retained substantially all the risks and rewards of the underlying assets, such financial instruments continue to be recognised on the balance sheet, and a liability recognised for the proceeds of the funding transaction.

The Company does not prepare group financial statements. The special purpose vehicles (SPV) are consolidated at a group level as the Company retains the risks and rewards from the securitised assets.

Term deposits

Term deposits are classified as financial assets and are included within loans and receivables. Term deposit balances are shown at their amortised cost, which is equivalent to their face value. Interest is accrued over the term of the deposits and is paid periodically or at maturity. Interest income earned but not paid is accrued.

Share capital

Incremental external costs directly attributable to the issue of new shares, other than on a business combination, are deducted from equity net of any related income taxes.

Impairment of financial assets

At each balance sheet date, the Company assesses whether, as a result of one or more events occurring after initial recognition, there is objective evidence that a financial asset or group of financial assets classified as available-for-sale or loans and receivables have become impaired. Evidence of impairment may include indications that the borrower or group of borrowers have defaulted or are experiencing significant financial difficulty, or the debt has been restructured to reduce the burden to the borrower.

2. CRITICAL JUDGEMENTS AND ACCOUNTING ESTIMATES

The preparation of the Company's financial statements requires management to make estimates and judgements that affect the reported amount of assets and liabilities at the date of the financial statements and the reported amount of income and expenses during the reporting period. Management evaluates its estimates and judgements on an on-going basis. Management bases its estimates and judgements on historical experience and on other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions.

The following accounting estimates and judgements are considered important to the portrayal of the Company's financial results and financial condition because: (i) they are highly susceptible to change from period to period as assumptions are made to calculate the estimates, and (ii) any significant difference between the estimated amounts and actual amounts could have a material impact on the Company's future financial results and financial condition.

In calculating each estimate, a range of outcomes was calculated based principally on management's conclusions regarding the input assumptions relative to historic experience. The actual estimates were based on what management concluded to be the most probable assumptions within the range of reasonably possible assumptions. There were no changes in the year.

Expected credit loss allowances

The company is exposed to credit risk where counterparties may not be able to meet their financial obligations. The application of the ECL methodology for calculating credit impairment allowances is susceptible to change from period to period. The methodology requires management to make a number of judgmental assumptions in determining the estimates. Any significant difference between the estimated amount and actual amounts could have a material impact on the company's future financial results and financial condition.

Key parameters in the modelling of the ECL are probabilities of default (PDs), loss given default (LGDs) and exposure at default (EAD). The determination of these parameters involves modelling and requires management to analyse historic information as well as factoring in the macroeconomic outlook. Further information on the company's approach to determining loss allowances is described in Note 3.

Approximately 6.9% of Finance Lease exposures are classified as Stage 2. If a further £50m of exposures were to move from Stage 1 to Stage 2 at an average PD level, there would be an increase in ECL of approximately £3m.

Residual value risk

The company is subject to residual value risk being the risk that the value of a vehicle at the end of the lease period is worth less than anticipated. Residual values are calculated after analysing the marketplace and the Company's own historical experience in the market.

Residual values of leased assets are reviewed regularly. The residual value risk associated with finance leases are reflected in a provision. This risk arises in relation to PCP contracts where the customer has a contractual right to return the vehicle to the Company which may be worth less than the amount guaranteed in the customer contract. The risk also arises in relation to the ability of certain customers to be able to Voluntary Terminate their agreement once 50% of the balance has been repaid. The calculation of the provisions in relation to residual value risk involves significant management judgment associated with estimating the proportion of vehicles to be returned as well as used car values. Further information can be found in Notes 3 and 20.

The company is also exposed to the changes in residual values impacting its operating lease portfolio. Changes in residual value are reflected in adjustments to the depreciation charge for the year. In calculating the depreciation charge, the Company needs to determine an appropriate residual value on origination of the lease and then update residual values over the life of the lease to determine any adjustments required to the depreciation charge. Similar to certain finance leases, the Company is therefore exposed to movements in residual values over time on its operating lease asset and judgement is involved in assessing residual values on an ongoing basis. Further information can be found in note 17.

3. FINANCIAL RISK MANAGEMENT

As a result of its normal business activities, the Company is exposed to a variety of risks, the most significant of which are operational risk, credit risk, market risk, interest rate risk, foreign currency risk, liquidity risk, conduct risk and residual value risk. The Company manages its risk in line with the central risk management function of the Santander UK group. Santander UK group's Risk Framework ensures that risk is managed and controlled on behalf of shareholders, customers, depositors, employees and the Santander UK group's regulators. Effective and efficient risk governance and oversight provide management with assurance that the Santander UK group's business activities will not be adversely impacted by risks that could have been reasonably foreseen. This in turn reduces the uncertainty of achieving the Santander UK group's strategic objectives.

Authority flows from the Santander UK plc Board to the Chief Executive Officer and from him to specific individuals. Formal standing committees are maintained for effective management of oversight. Their authority is derived from the person they are intended to assist. Further information can be found in the Santander UK plc Annual Report which does not form part of this report.

Operational risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes and systems or from external events. This includes regulatory, legal and compliance risk. Operational risk is monitored and managed within the group. An independent central operational risk function (Enterprise and Operational Risk) has responsibility for establishing the framework within which these risks are managed and is aligned to operational risk professionals within business areas (co-ordinated by IT and Operational Risk) to ensure consistent approaches are applied across the group. The primary purpose of the framework is to define and articulate the group-wide policy, processes, roles and responsibilities. The framework incorporates industry practice and regulatory requirements.

The day-to-day management of operational risk is the responsibility of business managers (line 1) who identify, assess and monitor the risks, in line with the processes described in the framework. The operational risk function (line 2) ensures that all key risks are regularly reported to the group's risk committee and board of Directors. Group Internal Audit provides a third line of operational risk support.

Credit risk

Credit risk is the risk that counterparties will not meet their financial obligations and may result in the Company losing the principal amount lent, the interest accrued and any unrealised gains, less any security held. The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies. All new business is subject to credit scoring and/or underwriting policy criteria designed to assess creditworthiness. Loans and receivables to third parties are secured on vehicles owned by those parties.

The Company has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers. The maximum exposure is the amount recorded in the balance sheet and disclosed in notes 20 and 21. The Company has material amounts owed by related parties. These include joint venture Hyundai Capital UK Limited, subsidiary undertaking PSA Finance UK Limited, and term deposits held at Santander UK plc. These amounts are considered to be low risk as with other related party transactions. Full detail of balances can be found in note 34.

The Introduction of IFRS 9

IFRS 9 replaced IAS 39 on 1 January 2018. IFRS 9 introduced a new impairment methodology and rules around classification and measurement of financial assets.

Key metrics

The Company uses a number of key metrics to measure and control credit risk, as follows:

Metric	Description
Expected credit losses (ECL)	ECL tells the Company what credit risk is likely to cost either over the next 12 months on qualifying exposures, or defaults over the lifetime of the exposure where there is evidence of a significant increase in credit risk since origination.
Stages 1, 2 and 3	The Company assesses the credit risk profile to determine which stage to allocate and monitors where there is a significant increase in credit risk and transfers between the stages.
Expected Loss (EL)	EL is the product of the probability of default, exposure at default and loss given default. The Company calculates each factor in accordance with group policy and risk models and an assessment of each customer's credit quality. There are differences between regulatory EL and IFRS 9 ECL. More details can be found in the Annual Report of the parent company Santander UK plc. For the rest of the Risk review, impairments, losses and loss allowances refer to calculations in accordance with IFRS, unless specifically stated otherwise. For IFRS accounting policy on impairment, see Note 1 to the Financial Statements.

Other metrics

The Company also assesses risks from other perspectives, such as geography, business area, product and process. This is done to identify areas requiring specific focus. Stress testing is also used to establish vulnerabilities to economic deterioration.

3. FINANCIAL RISK MANAGEMENT *(continued)*

Significant Increase in Credit Risk (SICR)
Loans which have suffered a SICR since origination are subject to a lifetime ECL assessment which extends to a maximum of the contractual maturity of the loan. Loans which have not experienced a SICR are subject to 12 month ECL. We assess each facility's credit risk profile and use a use a range of quantitative, qualitative and backstop criteria to identify exposures that have experienced a SICR to determine which of three stages to allocate them to:

- Stage 1: when there has been no SICR since initial recognition. We apply a loss allowance equal to a 12 month ECL i.e. the proportion of lifetime expected losses that relate to that default event expected in the next 12 months
- Stage 2: when there has been a SICR since initial recognition, but no credit impairment has materialised. We apply a loss allowance equal to the lifetime ECL i.e. lifetime expected loss resulting from all possible defaults throughout the residual life of a facility
- Stage 3: when the exposure is considered credit impaired using default criteria set out below. We apply a loss allowance equal to the lifetime ECL. Objective evidence of credit impairment is required.

Definition of default (Credit impaired)
We define a financial instrument as in default (i.e. credit impaired) for purposes of calculating ECL if it is more than 90 days past due (DPD), or if we have data to make us doubt customers can keep up with their payments i.e. they are unlikely to pay. The data typically includes where:
– They have had a winding up notice issued, or something happens that is likely to trigger insolvency – such as, another lender calls in a loan
– Something happens that makes them less likely to be able to pay – such as they lose an important client or contract
– They have regularly missed or delayed payments, even though they have not gone over the three-month limit for default
– Their loan is unlikely to be refinanced or repaid in full on maturity.

Backstop criteria
We classify all exposures more than 30 or 90 DPD in at least Stage 2 or in Stage 3, respectively. We do not rebut the backstop presumptions in IFRS 9 (i.e. credit risk has significantly increased if contractual payments are more than 30 days past due) relating to either a SICR or default.

Measuring ECL
For accounts not in default at the reporting date, we estimate a monthly ECL for each exposure and for each month over the forecast period. The lifetime ECL is the sum of the monthly ECLs over the forecast period, while the 12-month ECL is limited to the first 12 months. We calculate each monthly ECL as the discounted value for the relevant forecast month of the product of the following factors:

- Survival rate (SR): The probability that the exposure has not closed or defaulted since the reporting date.
- Probability of Default (PD): The likelihood of a borrower defaulting in the following month, assuming it has not closed or defaulted since the reporting date. For each month in the forecast period, we estimate the monthly PD from a range of factors. These include the current risk grade for the exposure, which becomes less relevant further into the forecast period, as well as the expected evolution of the account risk with maturity and factors for changing economics. We support this with historical data analysis.
- Exposure at Default (EAD): The amount we expect to be owed if a default event was to occur. We determine EAD for each month of the forecast period by the expected payment profile, which varies by product type. For amortising products, we base it on the borrower's contractual repayments over the forecast period. We adjust this for any expected overpayments on Stage 1 accounts that the borrower may make and for any arrears we expect if the account was to default. We vary these assumptions by product type and base them on analysis of recent default data.
- Loss Given Default (LGD): Our expected loss if a default event were to occur. We express it as a percentage and calculate it as the expected loss divided by EAD for each month of the forecast period. We base LGD on factors that impact the likelihood and value of any subsequent write-offs. We use the original effective interest rate as the discount rate. For accounts in default, we use the EAD as the reporting date balance. We also calculate an LGD to reflect the default status of the account, considering the current DPD and loan to value. PD and SR are not required for accounts in default.

Maximum exposure to credit risk
The table below shows the Company's maximum exposure to credit risk. The table only shows the financial assets that credit risk affects.

2019	Balance sheet amount		
	Gross amounts	Loss allowances	Net exposure
	£'000	£'000	£'000
Financial assets at amortised cost:			
Finance leases (note 20)	3,871,574	(45,985)	3,825,589
Unsecured personal loans (note 21)	786,255	(4,231)	782,024
Wholesale funding (note 21)	569,374	(15,413)	553,961
Entities with significant influence over the Company- Santander UK plc (note 34)	1,149,083	-	1,149,083
Joint venture: Hyundai Capital UK Limited (note 34)	2,199,327	-	2,199,327
Subsidiary undertaking: PSA Finance UK Limited (note 34)	1,488,678	-	1,488,678
Total financial assets at amortised cost	10,064,291	(65,629)	9,998,662

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

3. FINANCIAL RISK MANAGEMENT *(continued)*

2018	Balance sheet amount		
	Gross amounts	Loss allowances	Net exposure
	£'000	£'000	£'000
Financial assets at amortised cost:			
Finance leases (note 20)	3,544,163	(48,875)	3,495,288
Unsecured personal loans (note 21)	747,072	(4,424)	742,648
Wholesale funding (note 21)	594,938	(12,095)	582,843
Entities with significant influence over the Company- Santander UK plc (note 33)	1,178,107	-	1,178,107
Joint venture: Hyundai Capital UK Limited (note 33)	2,016,794	-	2,016,794
Subsidiary undertaking: PSA Finance UK Limited (note 33)	1,642,041	-	1,642,041
Total financial assets at amortised cost	9,723,115	(65,394)	9,657,721

For financial assets linked to related parties that meet the definition of a subsidiary, we do not hold any IFRS 9 provision as these are considered low risk and at a Santander UK plc group level consolidate to nil.

For financial assets linked to the joint venture, Hyundai Capital (UK) Limited, this entity does not fully consolidate within the Santander group. The Company completes an impairment review of this subsidiary annually and the risk of default is deemed to be negligible, and for this reason a separate IFRS 9 credit risk provision is not required against these assets.

Financial assets at FVTPL do not have the impairment requirements of IFRS 9 applied.

Where appropriate, case management is transferred to a specialist recovery team that works with the customer in an attempt to resolve the situation. If this does not prove possible, cases are classified as being unsatisfactory and are subject to intensive monitoring and management procedures designed to maximise debt recovery.
The class of financial instruments that is most exposed to credit risk in the Company is finance agreements, comprising loans and advances to customers and net investment in finance leases (note 20). These are net of impairment losses.

	2019	2018
	£'000	£'000
Finance leases (note 20)	3,825,589	3,495,288
Unsecured personal loans (note 21)	782,024	742,648
Wholesale funding (note 21)	553,961	582,843
Finance agreements (note 20/21)	5,161,574	4,820,779

The exposures relating to finance leases and personal loans are primarily to private individuals. Wholesale lending is to the commercial sector.

3. FINANCIAL RISK MANAGEMENT *(continued)*

Credit exposures and corresponding ECL

The following table analyses the credit risk exposure of financial instruments for which an ECL allowance is recognised, and the corresponding ECL at 31 December 2019.

2019	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Exposures				
Finance leases	3,581,292	266,040	24,242	3,871,574
Unsecured personal loans	769,954	14,090	2,211	786,255
Wholesale funding	296,807	272,567	-	569,374
Total exposures	4,648,053	552,697	26,453	5,227,203
IFRS 9 ECL				
Finance leases	(12,629)	(16,100)	(17,256)	(45,985)
Unsecured personal loans	(1,634)	(1,228)	(1,369)	(4,231)
Wholesale funding	(8,406)	(6,454)	(553)	(15,413)
Total ECL	(22,668)	(23,782)	(19,179)	(65,629)
Net exposures				
Finance leases	3,568,663	249,940	6,985	3,825,589
Unsecured personal loans	768,320	12,861	842	782,023
Wholesale funding	288,401	266,144	(553)	553,961
Total net exposures	4,625,385	528,915	7,274	5,161,574

2018	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Exposures				
Finance leases	3,290,620	230,237	23,305	3,544,162
Unsecured personal loans	731,868	12,736	2,468	747,072
Wholesale funding	533,012	61,926	-	594,938
Total exposures	4,555,500	304,899	25,773	4,886,172
IFRS 9 ECL				
Finance leases	(13,409)	(18,024)	(17,442)	(48,875)
Unsecured personal loans	(1,704)	(1,278)	(1,442)	(4,424)
Wholesale funding	(8,599)	(3,496)	-	(12,095)
Total ECL	(23,713)	(22,798)	(18,884)	(65,394)
Net exposures				
Finance leases	3,277,211	212,213	5,863	3,495,287
Unsecured personal loans	730,164	11,458	1,026	742,648
Wholesale funding	524,413	58,430	-	582,843
Total net exposures	4,531,788	282,101	6,889	4,820,778

3. FINANCIAL RISK MANAGEMENT *(continued)*

Movements in ECL provision are set out below:

Finance leases	Stage 1 Subject to 12-month ECL £'000	Non-credit impaired Stage 2 Subject to lifetime ECL £'000	Credit impaired Stage 3 Subject to lifetime ECL £'000	Total £'000
At 1 January 2019	(13,410)	(18,024)	(17,442)	(48,875)
Income statement charge for the year	(2,219)	-	(17,888)	(20,107)
Income statement release for the year	-	6,597	185	6,782
Net impairment reversal/ (charge)	(2,219)	6,597	(17,703)	(13,325)
Transfers to 12-month ECL	3,049	(3,049)	-	-
Transfers to credit impaired	(49)	(1,624)	1,673	-
Assets derecognised – written off	-	-	16,215	16,215
At 31 December 2019	(12,629)	(16,100)	(17,256)	(45,985)

Finance leases	Stage 1 Subject to 12-month ECL £'000	Non-credit impaired Stage 2 Subject to lifetime ECL £'000	Credit impaired Stage 3 Subject to lifetime ECL £'000	Total £'000
At 1 January 2018	(14,684)	(8,774)	(17,576)	(41,034)
Income statement charge for the year	(620)	(6,513)	(16,607)	(23,741)
Income statement release for the year	-	-	135	135
Net impairment reversal/ (charge)	(620)	(6,513)	(16,473)	(23,606)
Transfers to 12-month ECL	1,969	(1,969)	-	-
Transfers to credit impaired	(74)	(768)	842	-
Assets derecognised – written off	-	-	15,765	15,765
At 31 December 2018	(13,409)	(18,024)	(17,442)	(48,875)

Unsecured personal loans	Stage 1 Subject to 12-month ECL £'000	Non-credit impaired Stage 2 Subject to lifetime ECL £'000	Credit impaired Stage 3 Subject to lifetime ECL £'000	Total £'000
At 1 January 2019	(1,704)	(1,278)	(1,442)	(4,424)
Income statement charge for the year	(543)	-	(13,210)	(13,752)
Income statement release for the year	-	1,005	72	1,077
Net impairment reversal/ (charge)	(543)	1,005	(13,137)	(12,675)
Transfers to 12-month ECL	623	(623)	-	-
Transfers to credit impaired	(10)	(332)	342	-
Assets derecognised – written off	-	-	12,868	12,868
At 31 December 2019	(1,634)	(1,228)	(1,369)	(4,231)

Unsecured personal loans	Stage 1 Subject to 12-month ECL £'000	Non-credit impaired Stage 2 Subject to lifetime ECL £'000	Credit impaired Stage 3 Subject to lifetime ECL £'000	Total £'000
At 1 January 2018	(3,559)	(1,081)	(4,511)	(9,151)
Income statement charge for the year	-	-	(10,921)	(10,921)
Income statement release for the year	1,452	385	3,070	4,906
Net impairment reversal/ (charge)	1,452	385	(7,851)	(6,013)
Transfers to 12-month ECL	419	(419)	-	-
Transfers to credit impaired	(16)	(163)	179	-
Assets derecognised – written off	-	-	10,741	10,741
At 31 December 2018	(1,704)	(1,278)	(1,442)	(4,424)

3. FINANCIAL RISK MANAGEMENT *(continued)*

Wholesale funding	Stage 1 Subject to 12-month ECL £'000	Stage 2 Subject to lifetime ECL £'000	Stage 3 Subject to lifetime ECL £'000	Total £'000
At 1 January 2019	(8,599)	(3,496)	-	(12,095)
Income statement charge for the year	-	(2,453)	(555)	(3,008)
Income statement release for the year	(311)	-	-	(311)
Net impairment reversal/ (charge)	(311)	(2,453)	(555)	(3,319)
Transfers to 12-month ECL	505	(505)	-	-
Transfers to credit impaired	(164)	(804)	968	-
Assets derecognised – written off	-	-	1	1
At 31 December 2019	(8,570)	(7,257)	415	(15,413)

Wholesale funding	Stage 1 Subject to 12-month ECL £'000	Non-credit impaired Stage 2 Subject to lifetime ECL £'000	Credit impaired Stage 3 Subject to lifetime ECL £'000	Total £'000
At 1 January 2018	(7,673)	(558)	(3,606)	(11,837)
Income statement charge for the year	(1,004)	(2,860)	(222)	(4,086)
Income statement release for the year	-	-	3,606	3,606
Net impairment reversal/ (charge)	(1,004)	(2,860)	3,384	(480)
Transfers to 12-month ECL	78	(78)	-	-
Transfers to credit impaired	-	-	-	-
Assets derecognised – written off	-	-	222	222
At 31 December 2018	(8,599)	(3,496)	-	(12,095)

Interest rate risk

The Company provides fixed rate loans and finance leases. In 2018 the Company has converted all of its borrowings to fixed rate loans and for this reason there is no interest rate risk on the retail lending portfolio.
The Company has retained a proportion of notes issued by the securitisation vehicle Motor 2017-1 plc. An interest rate swap has been entered into to hedge an interest rate mismatch with Santander UK plc.

Foreign currency risk

The Company's securitisations are in sterling and US dollars and it is therefore exposed to foreign currency risk. This risk is mitigated by the use of cash flow swaps.
At the reporting date the Company has one currency cash flow swap linked to the Motor 2017 securitisation (2018: one).

Liquidity risk

Liquidity risk is the potential that, although remaining solvent, the Company does not have sufficient liquid financial resources to enable it to meet its obligations as they fall due or can secure them only at excessive cost.

The Company reviews on a regular basis its cash flow obligations; and through the utilisation of inter group lending and the expected maturities on the finance lease receivables and unsecured personal loans, they are able to meet all of its current cash flow obligations.

3. FINANCIAL RISK MANAGEMENT *(continued)*

Maturities of financial liabilities

The table below analyses the maturities of the undiscounted cash flows relating to financial liabilities of the Company based on the remaining period to the contractual maturity date at the balance sheet date. There are no significant financial liabilities related to financial guarantee contracts. This table is not intended to show the liquidity of the Company.

At 31 December 2019	Demand £000	Up to 3 months £000	3-12 months £000	1-5 years £000	Over 5 years £000	Total £000
Intercompany liabilities	10,783	1,443,595	3,624,478	4,602,272	-	9,681,128
Other liabilities	13,740	-	-	-	-	13,740
Total financial liabilities	24,523	1,443,595	3,624,478	4,602,272	-	9,694,868

At 31 December 2018	Demand £000	Up to 3 months £000	3-12 months £000	1-5 years £000	Over 5 years £000	Total £000
Intercompany liabilities	7,949	1,565,090	3,597,637	4,246,842	-	9,417,518
Other liabilities	24,147	-	-	-	-	24,147
Total financial liabilities	32,096	1,565,090	3,597,637	4,246,842	-	9,441,665

The Company categorises assets and liabilities measured at fair value within the fair value hierarchy based on the inputs to the valuation techniques as follows:

Level 1: Unadjusted quoted prices for identical assets or liabilities in an active market that the Company has the ability to access at the measurement date. The Company has no assets or liabilities measured at fair value that are classified as Level 1.
Level 2: Quoted prices in non-active markets, quoted prices for similar assets or liabilities, recent market transactions, inputs other than quoted market prices for the asset or liability that are observable either directly or indirectly for substantially the full term, and inputs to valuation techniques that are derived principally from or corroborated by observable market data through correlation or other statistical means for substantially the full term of the asset or liability. The Company has no assets or liabilities measured at fair value that are classified as Level 2.
Level 3: Inputs to the pricing or valuation techniques that are significant to the overall fair value measurement of the asset or liability are unobservable.

Market risk

Market risk is the potential for loss of income or decrease in the value of net assets caused by movements in the levels and prices of financial instruments. The Company's retail business is subject to fair value interest rate risk as the finance leasing agreements and unsecured personal loans all bear fixed interest and as such the value of these assets fluctuates with changes in market interest rates. To mitigate this risk for finance leases, lease arrangements and lending are taken out with a fixed rate of interest.

The UK referendum vote in June 2016 to leave the EU was followed by Article 50 being triggered in March 2017. In January 2020, the UK left the EU and has entered a period of negotiation on a future trading relationship. As anticipated, the process is impacting the economic, legal and regulatory environment for consumers, businesses and the financial services industry. Given the complexity of the process, we have put in place contingency plans and mitigating actions to address the potential risks that could arise across our business. We continue to actively monitor the key risks including operational, credit, market, liquidity, conduct and regulatory, legal, and reputational. As the process becomes clearer, we will update our plans and actions, and implement them if and when we need to. While uncertainty around Brexit remains we are preparing for a number of outcomes in order to minimise the impact on our business.

Conduct risk

Conduct risk is the risk that our decisions and behaviours lead to a detriment or poor outcomes for our customers and that we fail to maintain high standards of market integrity.

We consider conduct risk as part of the governance around our key business decisions. To support this, our conduct risk framework sets out how we manage the risk. It includes:

- Key roles and responsibilities
- Our approach to risk culture and remuneration
- Formal governance, escalation lines and committee structures

All colleagues are made aware of their responsibilities for conduct risk. They are made accountable through objective setting, performance management and remuneration.

3. FINANCIAL RISK MANAGEMENT *(continued)*

Residual value risk

Residual value risk arises from the Company's leasing activities and relates to not realising the full amount of the residual values ("RV") set by the Company on the origination of the leases. The profitability of the Company's operating and finance leases is highly dependent on the residual value at the end of the agreement with the customer.

Under the terms of PCP agreements, a customer has the right to hand back the vehicle with no further liability after all regular payments have been made, but before the final instalment has been paid. This final instalment is the GMFV (Guaranteed Minimum Future Value), or residual value. There is a risk that when a vehicle is handed back to the Company, the residual value is greater than the proceeds received in selling the vehicle at auction and the Company will incur a loss. The Company reviews the residual values and estimates the effect on prices and likelihood of the customer handing back the vehicle. As a result, a provision is created and subsequent impairment is recognised immediately.

Under the Consumer Credit Act customers who enter into secured regulated agreements are allowed to exercise their legal right to terminate their agreement once 50% of the balance has been repaid. When this arises the Company is subject to potential losses of vehicles returned early.

In relation to operating leases, movements in residual values are reflected in adjustments to the depreciation charge over the life of the leased asset.

The Company manages residual value risk by regularly monitoring the residual values against industry-wide data as well as its own experience. However, future RVs can be difficult to predict due to future trends and changes in customer demand and therefore the Company is exposed to the risk that RVs fall, leading to a reduction in profitability.

4. CAPITAL MANAGEMENT AND RESOURCES

The Company's shareholders adopt a centralised capital management approach, based on an assessment of both regulatory requirements and the economic capital impacts of businesses in the Santander group. The Company has no non-centralised process for managing its own capital.

Capital held by the Company and managed centrally as part of the Santander group, comprises share capital and reserves which can be found in the balance sheet.

5. NET INTEREST AND SIMILAR INCOME

An analysis of the Company's revenue is as follows:

	Year ended 31 December 2019 £000	Year ended 31 December 2018 £000
Retail- finance leasing income	159,675	147,271
Retail- unsecured personal loan income	43,370	41,622
Wholesale funding income	17,868	14,717
Interest and fees receivable on lending to joint ventures	39,177	30,530
Interest on term deposits	8,778	4,475
Interest income on securitisation	68,517	106,468
Interest income on credit default swap	-	3,286
Bank interest income	853	452
Total	338,238	348,821

Interest income on securitisations includes deferred consideration received, in accordance with the underlying securitisation legal documentation, from the special purpose vehicles (SPVs) listed in note 21. It should be reviewed in conjunction with amounts payable on securitisation in note 6 that relate to interest and other income from the securitised assets receivable by the SPVs. The net amounts payable on securitisation are £7,406,000 (2018: £10,319,000).

6. FINANCE COSTS

	Year ended 31 December 2019 £000	Year ended 31 December 2018 £000
Amounts payable on securitisation	75,923	116,787
Interest payable on borrowings held with Santander UK plc group	101,527	73,790
Fair value loss on interest rate swaps	-	2,960
Interest on bank overdrafts and loans	332	74
Operating lease finance charges	404	-
Total	178,186	193,611

Amounts payable on securitisation include interest on externally issued notes/loans, and primarily consist of intercompany recharges of which further detail can be found in the related parties note 33.

The borrowings with Santander UK Plc are fixed rate loans. The weighted average interest rate payable on borrowings held with Santander UK plc group was 0.89% for the year (2018: 0.84%).

The interest rate payable on bank overdrafts is variable and based on the base rate plus 0.15%; as at the end of 2019 the rate was 0.25% (2018: 1.75%).

7. OTHER OPERATING INCOME

	Year ended 31 December 2019 £000	Year ended 31 December 2018 £000
Operating lease income	92,342	59,093
Intercompany recharges	11,709	11,224
Net income on wholesale fees and other items from retail book	3,270	3,614
Total	107,321	73,931

Operating lease income includes the profit/ loss on the sale of the vehicle at the contract termination date. Within operating income of £92,342,000 (2018: £59,093,000) is a loss on disposal of £5,466,000 (2018: £314,000 profit) – see note 17.
Intercompany charges are made to the Company's Joint Venture Hyundai Capital UK Limited in relation to portfolio management, office rental and expenses paid on their behalf.

8. CREDIT IMPAIRMENT LOSSES AND PROVISIONS

	Year ended 31 December 2019 £000	Year ended 31 December 2018 £000
Credit impairment losses and provisions:		
Loans and receivables (note 3)	(29,320)	(30,100)
Recoveries of loans and receivables (note 3)	8,123	6,364
	(21,197)	(23,736)
Operating lease assets impairment (note 17)	-	5,679
Provisions for RV and voluntary terminations	(5,038)	2,168
Reversal of impairment in subsidiary	-	633
	(5,038)	8,480
	(26,235)	(15,255)

9. ADMINISTRATIVE EXPENSES

	Year ended 31 December 2019 £000	Year ended 31 December 2018 £000
Staff costs:		
Wages and salaries	28,442	25,136
Social security costs	3,120	2,636
Other pension costs (see note 33)	2,426	2,135
	33,988	29,907
Depreciation of property, plant and equipment (see note 16)	1,141	-
Depreciation of operating leases (see note 17)	82,942	44,548
Amortisation and impairment	1,095	3,284
Other administrative expenses:		
Information Technology	13,432	9,742
General overheads	13,665	16,904
Auditor remuneration for statutory audit	250	202
	112,525	74,680
Total	146,513	104,587

Staff Costs

The average monthly number of employees (including Executive Directors) was:

	Year ended 31 December 2019 No.	Year ended 31 December 2018 No.
Sales and customer service	353	339
Administration and support	283	269
Total	636	608

10. INVESTMENT INCOME

	Year ended 31 December 2019 £000	Year ended 31 December 2018 £000
Dividends received from PSA Finance UK Limited	12,000	22,000
Total	12,000	22,000

During the year, the Company's subsidiary PSA Finance UK Limited paid a dividend of £24,000,000 to shareholders (2018: £44,000,000). The Company received £12,000,000 in line with its 50.00% ownership interest (2018: £22,000,000). Further details regarding the Company's subsidiary investment can be found in note 18.

11. DIRECTORS' EMOLUMENTS

The aggregate emoluments received by the Directors of the Company were:

	Year ended 31 December 2019 £000	Year ended 31 December 2018 £000
Salaries and fees	418	423
Performance related payments	452	413
Other fixed remuneration	46	42
Total emoluments excluding pension contributions	916	878
Pension contributions	139	126
Total	1,055	1,004

The aggregate emoluments above exclude emoluments received by Directors in respect of their primary duties as Directors or officers of Banco Santander SA and Santander UK plc.

Remuneration of highest paid Director

The emoluments excluding pension contributions of the highest paid Director were £621,047 (2018: £591,060) of which £336,117 was performance related (2018: £307,141). The accrued pension benefit for the highest paid Director was £128,425 (2018: £124,079).

Two Directors (2018: two) will be receiving benefits under a defined benefits scheme and no Director (2018: one) will be receiving benefits under a defined contributions scheme.

The Company ensures that it is compliant with the mandatory deferral requirements of the PRA's Remuneration Rules and Remuneration Code for staff who meet the relevant criteria and the amount of bonus to be deferred is based on the total variable pay received. The PRA Remuneration Code prescribes that at least 40% of variable pay must be made over a period of at least three years and, for staff earning £500,000 or more in variable remuneration, at least 60% of a bonus must be deferred over the same period.

All UK bonus awards are subject to deferral principles that have been set at Banco Santander SA group level. Such principles, as applied to the Company, are subject to ratification by the Santander UK Board Remuneration Committee and can be overridden by UK national requirements to meet any criteria set by the PRA or other regulator/law. However, the general deferral principles are as follows:

- any deferred amount will be issued over a five year period (paid in five equal deferral tranches) as an award comprising 50% in shares and 50% in cash; and
- deferrals are subject to continued employment with the Banco Santander SA group in the UK and on the condition that none of the prescribed circumstances of forfeiture occur.

12. INVESTMENT GAINS/ (LOSSES)

	Year ended 31 December 2019 £000	Year ended 31 December 2018 £000
Unrealised fair value (loss) on macro hedge interest rate swaps designated in a fair value hedge relationship	-	(385)
Unrealised fair value gain on adjustment for the hedged item in a fair value hedge relationship	-	361
Unrealised fair value gain/(loss) on basis interest rate swaps	888	(684)
Unrealised fair value gain/(loss) on cross currency swaps	3	(18)
Total investment gains/ (losses)	891	(726)

The above confirms (losses)/ gains on derivatives. See note 24.

13. TAX

	Year ended 31 December 2019 £000	Year ended 31 December 2018 £000
Current tax:		
UK corporation tax on profit of the year	23,176	13,008
Adjustments in respect of prior years	5,817	184
Total current tax	28,993	13,192
Deferred tax (note 23):		
Origination and reversal of temporary differences	(5,040)	7,539
Change in rate of UK Corporation tax	531	(792)
Adjustments in respect of prior years	(5,222)	(575)
Total deferred tax	(9,731)	6,172
Tax charge on profit for the year	19,262	19,364

UK corporation tax is calculated at 19.00% (2018: 19.00%) of the estimated assessable profits for the year.

Finance Act 2016 introduced a reduction in the UK corporation tax rate to 17% from 1 April 2020 and this rate has therefore been used to calculate the deferred tax balance at 31 December 2019. However, this rate deduction was reversed in the UK Budget in March 2020. As a result, the UK corporation tax rate is expected to remain at 19%. Since this change in rate was not substantively enacted by the balance sheet date, it is not reflected in the deferred tax asset at 31 December 2019.

The tax on the Company's profit before tax differs from the theoretical amount that would arise using the basic tax rate of the Company as follows:

	Year ended 31 December 2019 £000	Year ended 31 December 2018 £000
Profit before tax:		
Continuing operations	107,516	130,574
Tax at the UK corporation tax rate of 19.00% (2018: 19.00%)	20,428	24,809
Non-deductible expenses/ non-taxable income	(12)	(81)
Non-taxable income	(2,280)	-
Non-taxable dividend income	-	(4,180)
Effect of change in tax rate on deferred tax provision	531	(792)
Adjustments in respect of prior years	595	(392)
Tax charge for the year	19,262	19,364

14. CASH AND CASH EQUIVALENTS

	2019 £000	2018 £000
Cash and cash equivalents	64,945	45,178
	64,945	45,178

Cash and cash equivalents consist of funds held in bank accounts operated by Santander UK plc and various third parties.

15. INTANGIBLE ASSETS

Software capitalisation	2019 £000	2018 £000
Cost		
At 1 January	9,851	13,045
Additions	1,506	-
Disposals	-	(3,194)
At 31 December	11,357	9,851
Accumulated amortisation		
At 1 January	3,284	3,194
Charge in year	1,095	3,284
On disposals	-	(3,194)
At 31 December	4,379	3,284
Carrying amount		
At 31 December	6,978	6,567

The additions relate to two capital projects, the Internal Ratings Basis Project and a Re-Marketing Project. The assets capitalised of £1,506,000 are not yet operational and to date no amortisation has been charged relating to these additions.

The brought forward cost, of £9,851,000 relates to the replacement of the retail mainframe systems. This is amortised over seven years and the total charge is £1,095,000 (2018: £3,284,000).

16. PROPERTY, PLANT AND EQUIPMENT

	Property, plant and equipment £000	Total £000
Cost		
Adjustment on transition to IFRS 16	12,566	12,566
Additions	898	898
At 31 December 2019	13,464	13,464
Accumulated depreciation		
Charge in year	1,141	1,141
At 31 December 2019	1,141	1,141
Net book value		
At 31 December 2019	12,323	12,323

Included in the above line items are right of use assets, with a net book value of the following:

	At 31 December 2019 £000
Buildings	11,555
Vehicles	549
	12,104

17. OPERATING LEASE ASSETS

The Company enters into operating lease arrangements with customers in the commercial sector. These relate to contract hire agreements provided to businesses and private individuals.

	£000
Cost	
At 1 January 2018	154,666
Additions	336,035
Disposals	(5,604)
At 1 January 2019	**485,097**
Additions	225,353
Disposals	(84,181)
At 31 December 2019	**626,270**
Accumulated depreciation and impairment	
At 1 January 2018	16,395
Depreciation charge for the year	44,548
Disposals	(758)
Impairment release for the year	(5,679)
At 1 January 2019	**54,506**
Depreciation charge for the year	82,942
Disposals	(17,436)
At 31 December 2019	**120,013**
Net book value	
At 31 December 2019	**506,257**
At 31 December 2018	430,591

At the balance sheet date, the Company had contracted with lessees for the following future minimum lease payments:

	2019 £000	2018 £000
Within 1 year	79,595	65,527
Between 1-5 years	59,717	61,008
Total	139,312	126,535

The breakdown of net (loss)/ profit on disposals is as follows:

	2019 £000	2018 £000
Disposals- cost	(84,180)	(5,604)
Disposals- depreciation	17,436	758
Sale proceeds	61,278	5,160
Net (loss)/profit on disposal	**(5,466)**	**314**

18. INVESTMENT IN SUBSIDIARY

On 3 February 2015, the Company entered into an agreement with Banque PSA Finance, S.A. (BPF), the auto finance unit of Group PSA Peugeot Citroën, to purchase 50% of the ordinary shares of PSA Finance UK Limited (PSA). The Company, PSA and BPF have set up a cooperation to provide retail finance facilities including finance leases and unsecured personal loans to retail customers for the purchase of motor vehicles and equipment. Wholesale funding to dealers is provided through a range of facilities. The Company is deemed to have control over PSA Finance UK Limited through its provision of a funding facility which has a significant effect on the subsidiary's principal activity.

Since the Company is exempt from preparing consolidated financial statements as the immediate parent Santander UK plc and the ultimate parent undertaking, Banco Santander SA, produce IFRS consolidated financial statements, of which the Company is a member, the investment in subsidiary is recorded in the Company balance sheet at cost, less any accumulated impairment loss allowances.

	2019 £000
Net book value as at 1 January and 31 December	109,605

The investment in PSA Finance UK Limited is stated at cost. The original cost paid in 2015 was £109,605,000 and an impairment provision of £633,000 was recognised in 2015. Following an impairment review, the original provision has been reversed as this cannot be supported as the investment is no longer considered to be impaired given PSA Finance UK Limited's net assets and on-going profitability. In the year, PSA Finance UK Limited paid a dividend of £12,000,000 (2018: £22,000,000) and as at the balance sheet date there is no impairment.

Details of the Company's subsidiary investment at 31 December 2019 are as follows:

	Place of incorporation	Proportion of ownership interest %	Proportion of voting power held %
Indirectly held:			
PSA Finance UK Limited	UK	50.00	50.00

The remaining proportions of ordinary shares are held as follows:

	Proportion of ownership interest %	Proportion of voting power held %
Banque PSA Finance SA	50.00	50.00

The registered office of PSA Finance UK Limited is 61London Road, Redhill, Surrey, RH1 1QA.

19. INVESTMENT IN JOINT VENTURE

Details of the Company's joint venture at 31 December 2019 are as follows:

	Place of incorporation	Proportion of ownership interest %	Proportion of voting power held %
Hyundai Capital UK Limited	UK	50.01	50.01

The investment in the joint venture is stated at cost at £27,506,000 (2018: £27,506,000). The remaining proportions of ordinary shares in the joint venture are held as follows:

	Proportion of ownership interest %	Proportion of voting power held %
Hyundai Capital Services Inc	29.99	29.99
Hyundai Motor UK Limited	10.00	10.00
Kia Motors UK Limited	10.00	10.00

Hyundai Capital UK Limited is a joint venture whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. The Company's share of the joint venture's results is accounted for on an equity basis in the consolidated financial statements of the Company's immediate parent; Santander UK plc, and the ultimate parent undertaking, Banco Santander SA. As a result of this, the Company is exempt from preparing consolidated financial statements and the investment in joint ventures is recorded in the Company balance sheet at cost, less any accumulated impairment loss allowances, and is reviewed for impairment annually.

Hyundai Capital UK Limited has not paid a dividend to the Company (2018: £nil).

The registered office of Hyundai Capital UK Limited is London Court, 39 London Road, Reigate, Surrey, United Kingdom, RH2 9AQ.

20. FINANCE LEASE RECEIVABLES

	Minimum lease Payments		Present value of minimum lease payments receivable	
	2019 £000	2018 £000	2019 £000	2018 £000
Gross investment under finance leases:				
Within one year	1,161,945	1,046,725	944,027	831,802
In the second to fifth years inclusive	2,688,593	2,482,600	2,399,244	2,203,380
After five years	21,036	14,837	18,772	13,168
	3,871,574	3,544,162	3,362,043	3,048,350
Less: unearned future finance income	(416,663)	(398,616)	-	-
Less: expected credit loss allowance	(45,985)	(48,875)	-	-
Less: RV and voluntary termination provision	(42,549)	(48,321)		
Net investment in finance lease receivables	3,366,377	3,048,350	3,362,043	3,048,350

	2019 £000	2018 £000
Analysed as:		
Non-current finance lease receivables (recoverable after 12 months)	2,356,053	2,148,057
Current finance lease receivables (recoverable within 12 months)	1,010,324	900,293
	3,366,377	3,048,350

The Company enters into instalment credit agreements which are treated as finance leasing arrangements for accounting purposes. The average term of finance leases entered into is four years and one month (2018: four years and one month).

The interest rate inherent in the leases is fixed at the contract date for all of the lease term. The rate of return on the net investment approximates to 7.31% (2018: 7.65%) per annum.

Included within finance lease receivables are Personal Contract Purchase (PCP) agreements. The PCP agreements are regulated under the Consumer Credit Act and have a final balloon payment at the end of the agreement. The customer has three contractual options at the end of the agreement. The options are:

1. to pay the final balloon payment
2. use equity as a deposit for a new vehicle by way of part exchange; or
3. hand the vehicle back to the Company.

If the Company is in agreement, then the customer may also refinance the balloon payment. This is not a contractual obligation.

As at the balance sheet date the value of the final balloon payments is £1,199,283,000 (2018: £1,006,260,000). The Directors consider that the carrying amount of the finance lease receivables approximates to their fair value.

20. FINANCE LEASE RECEIVABLES *(continued)*

Movements in the RV and voluntary termination provisions are as follows:

	2019 £000	2018 £000
At 1 January	48,321	58,202
Charge/ (release) to income statement	5,038	(2,168)
Utilised	(10,810)	(7,713)
At 31 December	**42,549**	**48,321**

Amounts are received in advance from a manufacturing partner to cover potential losses from customers on PCP contracts handing-back vehicles. The level of RV provision is reduced by the estimated amount to be covered by the manufacturing partner. The maximum amount of hand-back losses covered under this arrangement in 2019 was £26,895,000 (2018: £31,021,000).

21. FINANCIAL ASSETS HELD AT AMORTISED COST

	2019 £000	2018 £000
Unsecured personal loans	786,255	747,072
Wholesale funding	569,374	594,938
Securitisation notes	196,642	374,391
Term Deposits	1,051,214	1,122,806
Securitisation Issuance costs	1,706	-
Loans due from Motor 2016-1 plc – Securitisation	8,481	12,748
Loans due from Motor 2017-1 plc – Securitisation	28,305	29,486
Loans due from PSA Finance UK Limited – Subsidiary	1,488,678	1,511,339
Loans due from Hyundai Capital UK Limited - Joint Venture	2,199,327	1,989,289
Loans and receivables	**6,329,982**	**6,382,069**
Less: Expected credit loss allowances on unsecured personal loans	(4,231)	(4,424)
Less: Expected credit loss allowances on wholesale funding	(15,413)	(12,095)
Total	**6,310,338**	**6,365,550**

The performance of loans and receivables are analysed as follows:

	2019	2019 £000	2018	2018 £000
Not impaired:				
Neither past due or impaired	99.9%	6,323,811	99.9%	6,375,475
Past due and performing assets:				
Up to 3 months	0.07%	4,181	0.06%	4,126
Past due and non-performing assets:				
3 to 6 months	0.03%	1,990	0.04%	2,468
Loans and advances to customers	100.0%	6,329,982	100.0%	6,382,069
Less: Impairment allowances on unsecured personal loans		(4,231)		(4,424)
Less: Impairment allowances on wholesale funding		(15,413)		(12,095)
Loans and advances to customers net of impairment loss reserves		6,310,338		6,365,550
Non-current loans and receivables (recoverable after 12 months)		2,831,760		1,824,775
Current loans and receivables (recoverable within 12 months)		3,478,578		4,540,775
		6,310,338		6,365,550

The Directors consider that the carrying amount of loans and receivables approximates to their fair value.

All loans to third parties are to private individuals and companies and are at fixed rates, the average effective interest rate is 7.26% (2018: 7.67%). All loans are made in UK sterling. Loans and receivables to third parties include amounts receivable after twelve months totalling £469,686,578 (2018: £420,416,000).

The wholesale funding balance includes dealer stocking and dealer overdrafts, these are at variable rates and are repayable within twelve months. An allowance has been made for estimated irrecoverable amounts of £15,413,000 (2018: £12,095,000).

21. FINANCIAL ASSETS HELD AT AMORTISED COST *(continued)*

The entities Motor 2015-1 plc, Motor 2016-1 plc, Motor 2017-1 plc and PSA Finance UK Limited are consolidated into the Santander UK plc group financial statements. Please refer to note 1, securitisation transactions and investment in subsidiary. Included within Loans due from PSA Finance UK Limited is £nil (2018: £411,000) relating to one month of premium receivable in relation to the Credit Default Swap (note 24).

The entity Hyundai Capital UK Limited is not fully consolidated as it does not meet the accounting definition of a subsidiary. The Company does not prepare group accounts. The share of profit from the entity Hyundai Capital UK Limited is included in the consolidated financial statements of Santander UK Plc group. The Company has amounts on deposit with Santander UK Plc of £1,051,204,000 (2018: £1,122,000,000).

22. TRADE AND OTHER RECEIVABLES

	2019 £000	2018 £000
Trade receivables	29,540	36,094
Tax and social security	140	7,866
Prepayments	1,056	1,062
Total	30,736	45,022

	2019 £000	2018 £000
Non-current	9,454	61
Current	21,282	44,961
Total	30,736	45,022

The Directors consider that the carrying amount of trade receivables approximates to their fair value.
Prepayments include amounts after twelve months of £11,000 (2018: £61,000).

23. DEFERRED TAX

Deferred taxes are calculated on temporary differences under the liability method using the tax rates expected to apply when the liability is settled or the asset is realised. The movement on the deferred tax account was as follows:

	Other temporary differences £000	Accelerated capital allowances £000	Total £000
At 1 January 2018	1,092	(1,642)	(550)
Income statement charge	86	(6,239)	(6,153)
IFRS 9 transitional adjustments	(19)	-	(19)
At 1 January 2019	1,159	(7,881)	(6,722)
Income statement charge	(454)	10,185	9,731
At 31 December 2019	705	2,304	3,009

Deferred tax assets / (liabilities) are attributable to the following items:

	Balance Sheet 2019 £000	Balance Sheet 2018 £000	Income Statement 2019 £000	Income Statement 2018 £000
Deferred tax assets/ (liabilities):				
Accelerated book depreciation / (Accelerated tax depreciation)	2,304	(7,881)	10,185	(6,239)
IFRS 9 transitional adjustments	134	168	(34)	(19)
Other temporary differences	571	991	(420)	86
Total deferred tax	3,009	(6,722)	9,731	(6,172)

The deferred tax assets / (liabilities) scheduled above have been recognised in the Company on the basis that sufficient future taxable profits are forecast within the foreseeable future, in excess of the profits arising from the reversal of existing taxable temporary differences, to allow for the utilisation of the assets as they reverse.

24. DERIVATIVE FINANCIAL INSTRUMENTS

	2019 £000	2018 £000
Fair value of derivative financial instruments based on level 2 internal model:		
Credit default swap with PSA Finance UK Limited	-	21,098
Interest rate swap – Motor 17-1 plc	(182)	(1,925)
Cross currency swap asset – Motor 17-1 plc	5	(480)
Total	(177)	18,693

As a result of the Company diversifying its borrowings portfolio by entering into securitisations, a number of interest rate and cross currency swaps have been entered into.

The Company has entered into a basis rate swap to hedge an interest rate mismatch with Santander UK plc, linked to the securitisation entity Motor 17-1 Plc. The swap will be in force until the earlier of the notes' maturity date of June 2022 or such earlier date on which the swap is terminated. The swap is not designated into a hedge accounting relationship. A cross currency swap has previously been entered into to mitigate a currency mismatch as some of the notes are transacted in US dollars.

In 2017, the Company entered into a Credit Default Swap with the related party PSA Finance UK Limited. This was accounted for as a financial guarantee contract. This arrangement has been terminated in 2019.

The distinction between current and non-current is based on the contractual maturity of the loan portfolio (the hedged item).

25. INVENTORIES

	2019 £000	2018 £000
Inventories of contract hire vehicles	13,873	832
Total	13,873	832

Inventories relates to the vehicles returned at the end of the contract hire period that are currently awaiting resale.

26. TRADE AND OTHER PAYABLES

	2019 £000	2018 £000
Trade payables	57,290	52,407
Advanced rentals for contract hire	19,505	18,921
Corporation tax	23,642	13,008
Financial guarantee contract with PSA Finance UK Limited	-	21,097
Financial guarantee contract with Motor Securities 2018-1 DAC	13,098	-
Accruals and other deferred income	15,429	16,828
Total	128,964	122,261

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and on-going costs.

Included within trade payables are amounts from a manufacturing partner to cover potential hand-back losses of £27m (2018: £31m).

The Directors consider that the carrying amount of trade payables approximates to their fair value.

The entire balance of trade and other payables are classed as amounts payable within one year.

27. LEASE LIABILITIES

	2019 £000	2018 £000
Property lease liability	11,686	-
Vehicle lease liability	552	-
Total	12,238	-

	2019 £000	2018 £000
Non-current	11,159	-
Current	1,079	-
Total	12,238	-

The Company has adopted IFRS 16 Leases from 1st January 2019. The balance above represents the closing liability linked to the operating leases that the Company has committed to. The corresponding assets are shown within note 16.

28. BANK OVERDRAFTS AND BORROWINGS

	2019 £000	2018 £000
Amounts due to Santander UK plc group companies	8,299,028	7,682,575
Amounts due to Hyundai Capital UK Limited	905,743	704,043
Amounts due to Motor 2016-1 plc	208,005	575,288
Amounts due to Motor 2017-1 plc	282,092	479,759
Amounts due to Motor Securities 2018-1 Designated Activity Company	189	-
Total	9,695,057	9,441,665
These borrowings are repayable as follows:		
On demand or within one year	5,092,784	5,870,105
Amounts due after one year	4,602,273	3,571,560
Total	9,695,057	9,441,665

Amounts due to Santander UK plc group companies include amounts for borrowings and accrued interest totalling £8,293,986,740 (2018: £7,678,668,000). Borrowings are fixed rate interest bearing; the average weighted interest rate as at the balance sheet date is a fixed rate of 0.89% (2018: 0.84%). Borrowings are repaid over terms agreed within the credit facility contract.

Amounts due to Santander UK plc group companies relate to intercompany recharges totalling £3,907,000 (2018: £2,175,000) and are repayable on demand. The Directors consider that the carrying amount of the amounts owed to group undertakings approximates to their fair value. No interest is incurred on intercompany recharges.

Hyundai Capital UK Limited has amounts on deposit of £900,000,000 (2018: £700,000) plus a balance owing from the Company to the JV of £5,743,000 (2018: £4,043,000).

Amounts owed to Motor 2016-1 plc relate to assets securitised in December 2016. Amounts due to Motor 2016-1 plc include amounts repayable after twelve months totalling £123,676,217 (2018: ££312,153,000). No interest is incurred on the securitised asset balances.

Amounts owed to Motor 2017-1 plc relate to assets securitised in September 2017. Amounts due to Motor 2017-1 plc include amounts repayable after twelve months totalling £63,664,847 (2018: £199,552,000). No interest is incurred on the securitised asset balances.

All bank overdrafts are held in UK sterling and are repayable on demand. The Directors consider that the carrying amount of bank overdrafts represents their fair value.

29. SHARE CAPITAL

	2019 £000	2018 £000
Issued and fully paid:		
150,000,000 (2018: 150,000,000) ordinary shares of £1 each	150,000	150,000

30. OPERATING LEASE ARRANGEMENTS

The table below shows the outstanding commitments under non-cancellable operating leases at 31 December 2018. Following the application of IFRS 16 at 1 January 2019, a lease liability is now recognised on the balance sheet to represent its obligation to make lease payments.

	2018 £000
Within one year	1,617
In the second to fifth years inclusive	5,094
After more than five years	12,722
Total of future minimum rental receivables under non-cancellable operating leases	**19,433**

31. NOTE TO THE CASH FLOW STATEMENT

	Year ended 31 December 2019 £000	Year ended 31 December 2018 £000
Operating profit	94,625	109,300
Adjustments for:		
Finance costs	178,186	193,611
Depreciation on fixtures, fittings and operating leases	85,178	47,831
(Profit)/loss on disposal of operating lease assets	5,466	(314)
Decrease in impairment losses	(5,536)	(12,822)
Operating cash flows before movements in working capital	357,919	337,606
Increase in finance lease receivables	(309,366)	(380,976)
Decrease in macro hedge of interest rate risk	-	(385)
Increase in loans and receivables	(19,505)	(739,104)
Decrease/ (increase) in trade receivables	1,244	(27,212)
(Decrease)/ increase in payables	(4,911)	4,212
Cash generated from/ (used in) operations	25,381	(805,859)
Tax paid	(18,359)	(14,283)
Net cash generated from/ (used in) operating activities	7,022	(820,142)

Cash and cash equivalents (which are presented as a single class of assets on the face of the balance sheet) comprise cash at bank and other short-term highly liquid investments with maturity of three months or less.

32. CONTINGENT LIABILITIES

The Company, along with certain other subsidiaries of Santander UK plc, is a party to a capital support deed dated 14 December 2012 with Santander UK plc, Abbey National Treasury Services plc and Cater Allen Limited (each a regulated entity).The Capital Support Deed supports a core UK group for the purposes of section 10 of the Prudential Sourcebook for Banks, Building Societies and Investment Firms (BIPRU) of the FSA Handbook. Under section 10.8 of BIPRU, exposures of each regulated entity to other members of the core UK group, including the Company, are exempt from large exposure limits that would otherwise apply. The purpose of the Capital Support Deed is to facilitate the prompt transfer of available capital resources or repayment of liabilities to a regulated entity to ensure that a regulated entity continues to comply with requirements relating to capital resources and risk concentrations. The amount of any transfer is limited to the sum of the Company's capital resources which would not cause the value of its liabilities to exceed the value of its assets, taking into account all of its contingent and prospective liabilities. The Capital Support Deed also provides that, in certain circumstances, funding received by the Company from other parties to the Capital Support Deed becomes repayable on demand, such repayment being limited to the Company's available resources.

33. RETIREMENT BENEFIT SCHEMES

The Company participates in the Santander UK group defined benefit pension schemes in operation. There is no contractual agreement of stated policy for charging the net defined benefit cost. The contribution to be paid by the Company is calculated as the contributions made by Santander UK plc to the schemes in respect of the Company's employees. An amount of £2,426,000 (2018: £2,135,000) was recognised as an expense for the contributions and is included in note 9. Of this amount £295,000 as recognised for key management personnel (2018: £307,000). The details of the pension scheme appear in the financial statements of Santander UK plc.

34. RELATED PARTY TRANSACTIONS

Trading transactions

During the year, the Company entered into the following transactions with related parties:

	Income		Expenditure		Amounts owed by related parties		Amounts owed to related parties	
	2019 £000	2018 £000	2019 £000	2018 £000	2019 £000	2018 £000	2019 £000	2018 £000
Entities with significant influence over the Company- Santander UK plc	19,430	10,480	112,002	80,060	1,149,083	1,178,107	8,350,271	7,701,577
Other Santander UK plc group companies- Abbey National Treasury Services plc	-	993	-	4,235	-	-	-	-
Other related parties: Gesban UK Limited	-	-	14	14	-	-	-	-
Other related parties: Santander Technology Limited	-	-	3,631	2,309	-	-	2,500	4
Other related parties: Santander Global Technology Limited	-	-	1,497	1,574	-	-	1,293	1,117
Other related parties: Santander UK Operations Limited	-	-	46	-	-	-	-	-
Other related parties: Motor 2015-1 plc	24	17,258	-	17,269	-	-	-	-
Other related parties: Motor 2016-1 plc	29,606	35,899	34,369	41,495	145,527	313,088	282,092	575,288
Other related parties: Motor 2017-1 plc	38,888	53,312	40,219	56,494	87,900	103,537	208,005	479,759
Other related parties: Motor Securities 2018-1 Designated Activity Company	-	-	189	-	-	-	189	-
Joint venture: Hyundai Capital UK Limited	28,942	25,402	-	-	2,199,327	2,016,794	905,743	704,043
Subsidiary undertaking: PSA Finance UK Limited	34,764	43,896	1,774	2,205	1,488,678	1,642,041	-	21,098
Other related parties: Santander Global Consumer Services Limited	-	-	3,690	3,337	-	-	-	144

Amounts owed to Santander UK include borrowings, intercompany recharges and bank balances. See note 28 for further detail.

Treasury borrowing costs including the interest rate derivatives are all recharged.

All transactions with Motor 2015-1 plc, Motor 2016-1 plc and Motor 2017-1 plc relate to the securitisations which commenced in March 2015, December 2016 and September 2017 respectively. The entities Motor 2016-1 plc and Motor 2017-1 plc are still trading as at the reporting date.

With the exception of the amounts due to and amounts due from the related parties in connection with securitisations, all other related party balances are unsecured.

Amounts owed by Hyundai Capital UK Limited include treasury borrowings and accrued interest of £2,199,000 (2018: £1,989,287,000). Amounts owed to Hyundai Capital UK Limited include management recharges for borrowings, staff, system and overheads of £5,742,000 (2018: £4,042,000). Hyundai Capital UK Limited has amounts on deposit of £900,000,000 (2018: £700,000).

Amounts owed by PSA Finance UK Limited include treasury borrowings of £1,487,000 (2018: £1,509,500), accrued interest for borrowings of £1,678,000 (2018: £1,428,000) and amounts due from a credit default swap of £nil (2018: £ 411,000).

Directors' transactions

Directors and key management personnel have undertaken the following transactions with the Company:

Remuneration of key management personnel

The remuneration of the management board, which consists of eight employees (2018: seven) who act as the key management personnel of the Company, is set out below in aggregate for each of the categories specified in IAS 24 *Related Party Disclosures*. Further information about the remuneration of the individual Directors are provided in Note 11.

	Year ended 31 December 2019 £000	Year ended 31 December 2018 £000
Short-term employee benefits	2,215	2,324
Post-employment benefits	295	307
	2,510	2,631

Of the Key Management Personnel that served during the year, two Directors were remunerated in relation to their services to the Company (2018: three).

34. RELATED PARTY TRANSACTIONS *(continued)*

Finance leases and unsecured personal loans

Finance leases and unsecured personal loans are made to Directors and key management personnel in the ordinary course of business, with terms prevailing for comparable transactions and on the same terms and conditions (including interest and repayment features) as applicable to other employees within the Company. Such loans do not involve more than the normal risk of collectability or present any unfavourable features.

Long Term Incentive Plan

The LTIP was reintroduced in 2014 and amended for 2015 awards under which conditional cash awards were made to certain Executive Directors, Key Management Personnel and other nominated individuals which are converted into shares in Banco Santander SA at the time of vesting. There was no LTIP awarded in 2016 due to the introduction of a single variable remuneration framework across the Banco Santander group.
The LTIP plan granted in 2014 involved a two-year performance cycle for vesting with further three-year performance conditions applied to the deferral of awards. The LTIP plan granted in 2015 involved a one-year performance cycle. Beneficiaries were allocated an initial award determined in GBP which was converted into shares in Banco Santander SA in January 2015 and January 2016 respectively. The 2014 LTIP vested at 100% in January 2015 based on Banco Santander SA's relative Total Shareholder Return (TSR) performance in 2014 versus a comparator group and deferred over three years. The 2015 LTIP vested at 91.5% in January 2016 based on Banco Santander SA's Earnings Per Share (EPS) and Return on Tangible Equity (RoTE) performance against budget in 2015 and was deferred for three years.

No LTIP awards were granted in 2019 (2018: nil).

2015 LTIP
Employees were allocated an initial award determined in GBP in 2015 which was converted into shares in Banco Santander SA, in January 2016. The 2015 LTIP vested at 91.5% in January 2016 based on Banco Santander SA's relative EPS and RoTE performance in 2015 versus a comparator group. The vested award will be deferred over three years and payable in 2019 subject to Banco Santander SA's continuing relative performance to comparators of EPS, RoTE and other non-financial measures such as Top 3 best bank to work for, Top 3 in customer satisfaction and loyal customers as well as continuing employment. The conditions of the 2015 LTIP were met and were paid out the remaining eligible population in the first quarter of 2019 at 65.78% of the original award.

Balance with Directors, Key Management Personnel

Directors, Key Management Personnel and their connected persons have undertaken the following transactions with the group.

	Number of directors/key management personnel	Amounts in respect of directors and key management personnel £000
Balances outstanding at 1 January 2019	4	158
Net movement during the year	(2)	(133)
Balances outstanding at 31 December 2019	2	25

There were no other transactions with directors or key management personnel.

35. PARENT UNDERTAKING AND CONTROLLING PARTY

The Company's immediate parent company is Santander UK plc, a company registered in England and Wales and which owns 100% of the share capital.

The Company's ultimate parent undertaking and controlling party is Banco Santander SA, a company registered in Spain. Banco Santander SA is the parent undertaking of the largest group of undertakings for which group financial statements are drawn up and of which the Company is a member. Santander UK plc is the parent undertaking of the smallest group of undertakings for which the group financial statements are drawn up and of which the Company is a member.

Copies of all sets of group financial statements, which include the results of the Company, are available from Secretariat, Santander UK plc, 2 Triton Square, Regent's Place, London NW1 3AN.

36. SUBSEQUENT BALANCE SHEET EVENTS

Since the balance sheet date there has been a global pandemic arising from an outbreak of respiratory illness known as COVID-19. This is causing disruption to financial markets and business activity in the UK. While it is too early to accurately estimate the financial and business impact of the COVID-19 outbreak, we expect a negative impact on our 2020 financial results. COVID-19 is a non-adjusting post balance sheet event.